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Agriculture Subcommittee on
Department Operations, Oversight, Dairy, Nutrition, and Forestry

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Mr. Chairman and members of the Committee, thank you for the opportunity to appear before you today. My name is Sue Taylor and I am Vice President of Dairy Policy and Procurement at Leprino Foods.

Leprino Foods is a family-owned company that has grown from making small batches of ricotta and mozzarella cheese for local delivery to the world's largest producer of mozzarella cheese. We operate nine plants in the United States, manufacturing mozzarella cheese and whey products. Six of the nine plants receive milk pooled in the Federal Milk Marketing Orders administered by USDA. We operate three manufacturing facilities that are regulated under the California state order.

Before discussing issues related to the next Farm Bill, I would like to thank members of the Committee for passing the Milk Regulatory Equity Act ("MREA") earlier this year. It was a critical piece of legislation and we appreciate your efforts.

In an effort to prepare the dairy industry for future competitiveness here and abroad as part of the next Farm Bill, we suggest Congress:

1. **mandate that USDA act with speed in its regulation of the Federal Milk Marketing Orders to keep up with changes in the dairy marketplace,**
2. **give all producers and processors risk management tools like forward contracting, and**
3. **resolve the conflicting nature of the two existing federal dairy safety nets.**

Make Allowance and Streamlining the Federal Milk Marketing Orders

First, I want to thank the Chairman for his support of updating the make allowance to allow the milk pricing formulas of the Federal Milk Marketing Order to reflect current manufacturing costs. I have just returned from the USDA hearing on the make allowance and I hope the Department will act quickly on the hearing record and finalize the formula update within weeks and not months.

The delay and politization of the make allowance update is of great concern to Leprino and other dairy manufacturers across the country. The make allowances in the current formula are based upon cost data from the late nineties. With the significant rise in energy, healthcare and other costs since the late nineties, the industry was closing in on a financial crisis by 2005. Going to the marketplace to recover the increased costs is not an option. The make allowance hearing was requested and granted on an "emergency" basis last year. A four-day hearing was held last January and yet, here we sit with no decision from USDA some nine months later. A year of deliberation is simply not acceptable when the industry is losing millions of dollars a month. Mr. Chairman, I hope you will continue to urge USDA to finish what they started and not be distracted by calls to link this simple, straightforward exercise with other proposals that are unrelated to the pricing of milk for manufacturing.

Congress should urge USDA to take a page from the playbook here in California. The California state milk marketing order also has hard and fast deadlines for considering and making changes to its state order. Changes are implemented within 60 days after concluding its public hearing, as required by law. This system has allowed California processors and producers to be more responsive to commercial demands while the rest of the nation lingers under the cumbersome bureaucracy of USDA.

Reinstating the Right to Forward Contract

Price volatility has become an increasing concern to domestic and international customers alike. I believe that the ability to forward price significant volumes of product is key to driving demand for American dairy products. Unfortunately, multiple food service customers have told me that they are frustrated by price volatility over the years and, as a consequence, are minimizing the use of cheese in menu items. Neither producers nor processors win when our ultimate consumers turn away from our product because of volatile prices. Leprino routinely uses the risk management tools available to offer forward prices to our customers, but futures market liquidity on the Chicago Mercantile Exchange where dairy is traded still makes accumulation of significant volumes cumbersome. Congress can help address this need by reinstating the dairy forward contracting program.

In addition to the demand issues that will be addressed by forward contracting, I can tell you as a former agricultural banker with continued ties to that community, forward contracting is an important tool in the producer arsenal.

Reforming Current Federal Safety Nets

Finally, I would like to briefly comment on the current Federal safety nets. Leprino is very concerned that the Milk Income Loss Contract Program (MILC) impedes the industry’s transition to becoming a more competitive long-term player. The program’s current structure with a very high target price and limitations on eligible production shields smaller producers from market forces, resulting in greater production and lower overall market prices. At the same time, mid-sized and larger producers are primarily gaining their revenue from the depressed markets, placing these more efficient producers that represent the future of our industry under financial stress. The MILC program runs headlong against the U.S. industry’s need to become more competitive. Moreover, the current dairy price support program is not operating as intended.

The dairy price support program has also become more disruptive to the marketplace. For example, the accumulation of over a billion pounds of nonfat in USDA’s coffers a few years back was very disruptive. Given limitations on distributions for international food aid, USDA started giving away surplus milk powder accumulated through the dairy price support program for livestock feed in drought areas. The more powder that came out of government storage, the more prices in the free enterprise whey market were undermined. Leprino's whey and cheese business is hurt when the government is buying product and dumping it on the marketplace when it is not needed.

Leprino is operating under the laws of supply and demand but the current dairy programs with these two conflicting safety nets are not. The price support program and the MILC program work against one another and stifle innovation and growth in the dairy industry.

Conclusion

Today, in dairy we have a federal pricing scheme that is complex and unresponsive to markets. We have to deal with greater volatility and production of unwanted, surplus products. This web of programs combines to put the U.S. dairy industry farther behind our competition.

However, with your help in modernizing these dairy policies, we will have a greater opportunity to expand domestically and earn a greater share of international markets. We need federal dairy policies that help pave the way, rather than impede our progress to flourish in the long-term.

Thank you.